



Michigan Timber Supply / Demand Assessment

Michigan House of Representatives
Conservation, Forestry, and Outdoor Recreation
Committee Hearing

Lansing, May 19, 2005

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Introduction

- υ George Banzhaf & Company
- υ Project Overview



Specific Themes

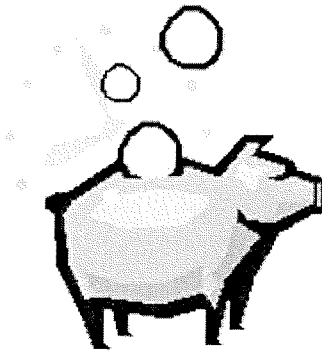
- υ What is Michigan's timber supply potential?
- υ How much of that potential is being realized?
- υ What are the demand trends for Michigan timber?
- υ How have prices moved in response to supply/demand conditions?
- υ How does the situation in Michigan compare to other states?



Understanding Timber Supply Potential

The Savings Account Analogy

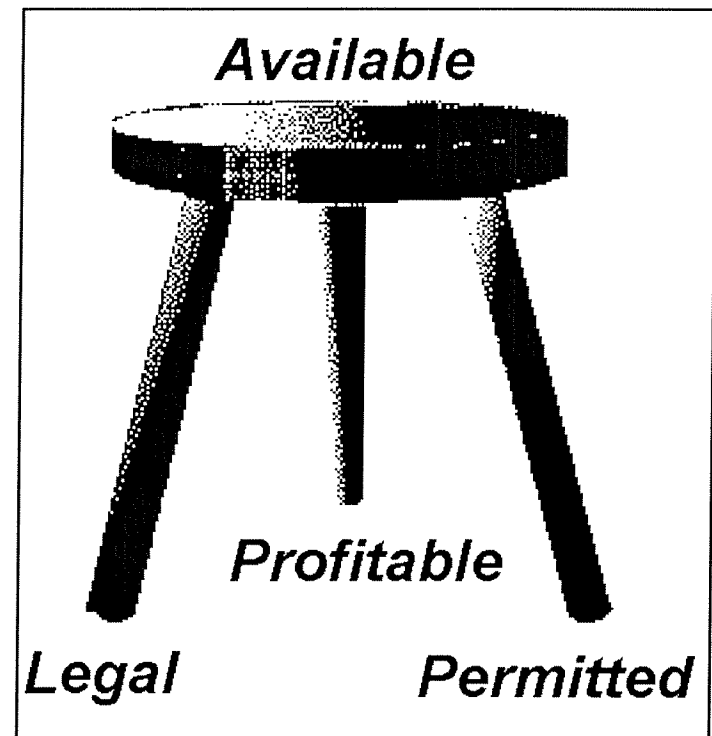
- υ Principal = Inventory
- υ Interest = Growth
- υ Withdrawals = Harvest
- υ If interest (growth) exceeds withdrawals (harvest), then balance (inventory) increases
- υ If harvest is less than or equal to growth, then inventory will not decline



Understanding Timber Supply Potential

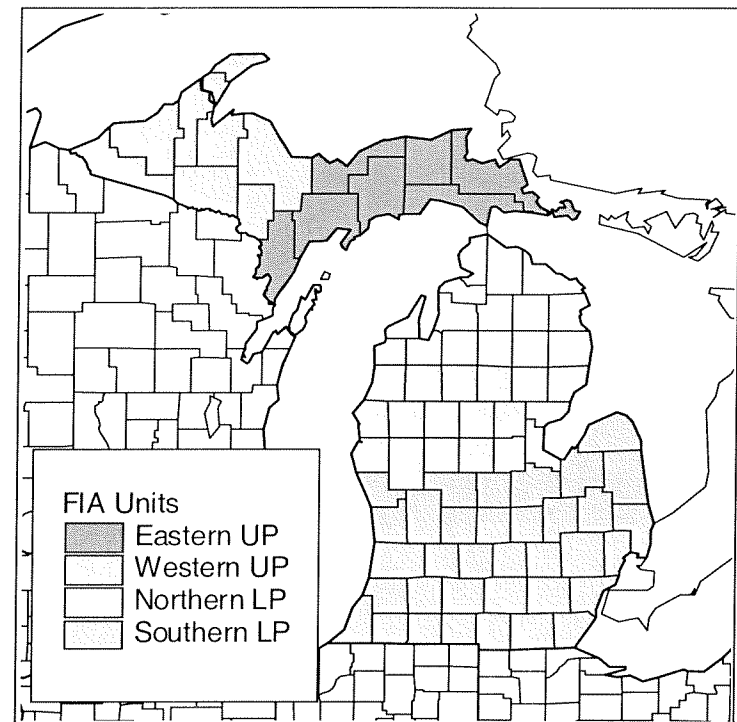
Physical vs Available Inventory

To be a part of the timber supply stream, timber inventory must be available for harvest. "Available" refers to timber whose location and condition are such that its harvest is legal, profitable, and permitted by the forest owner.

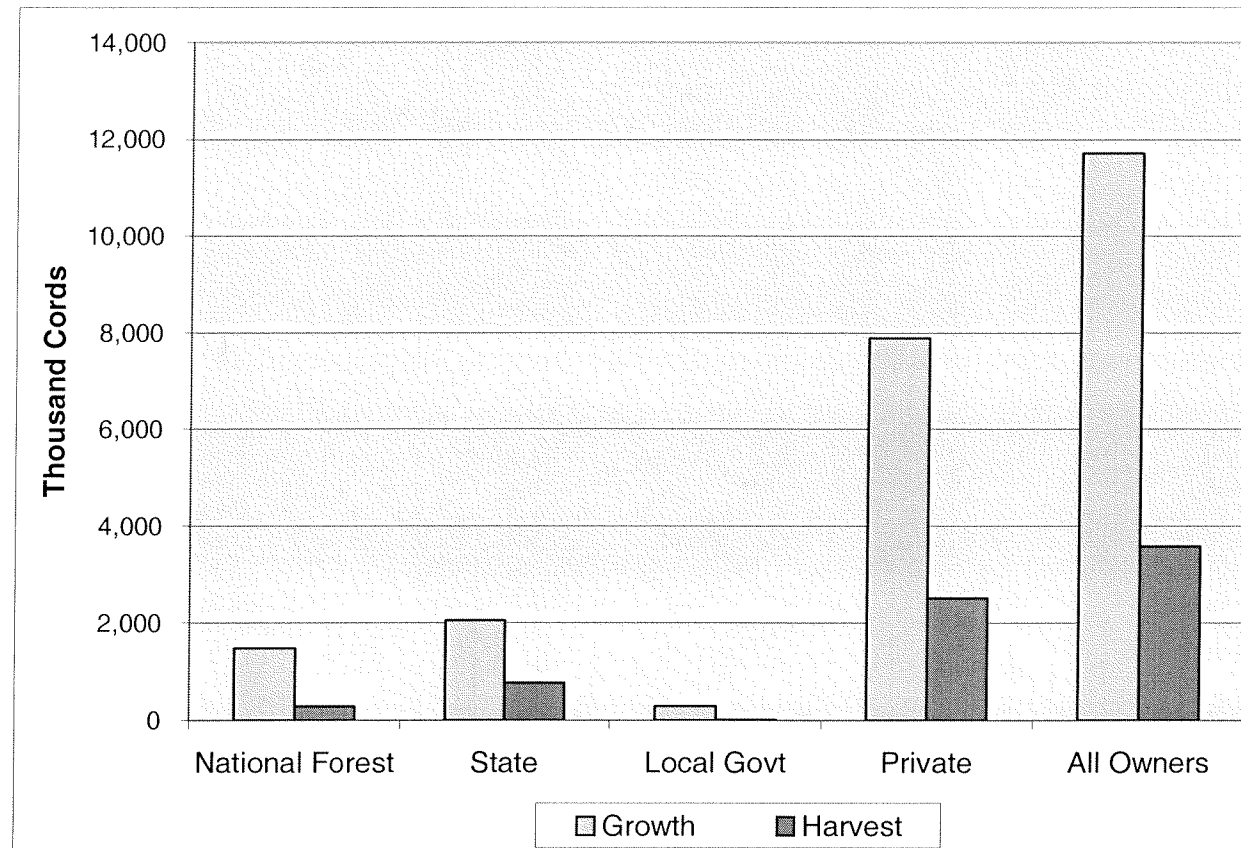


Timber Supply Potential: Where?

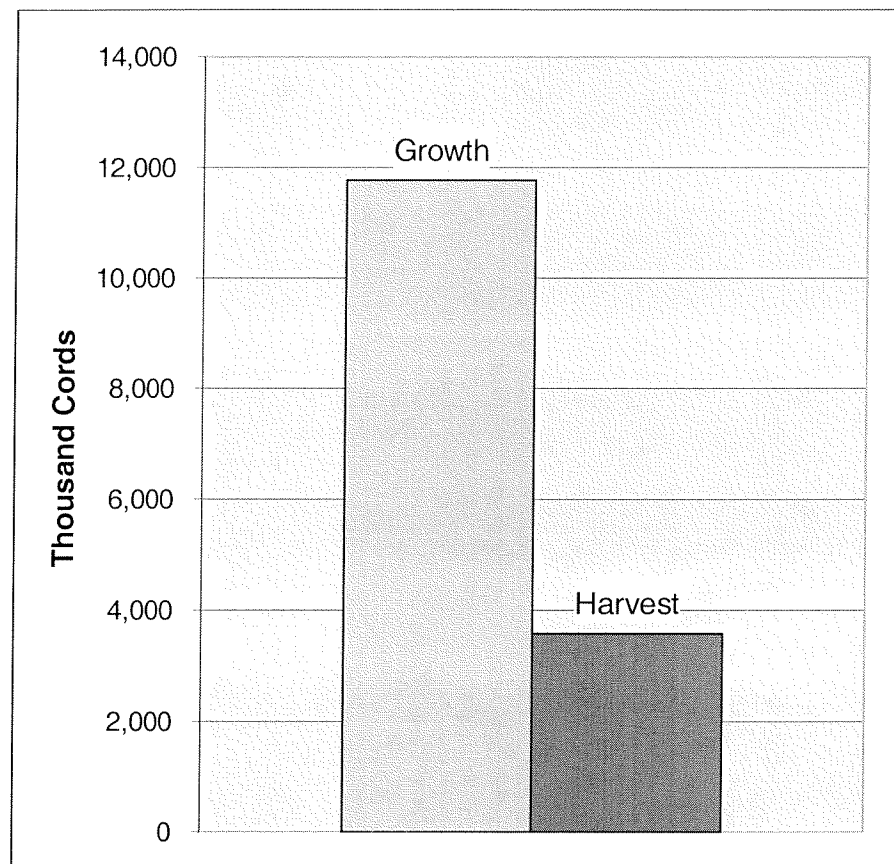
- u In the heaviest timber regions, harvest is only about 1/3 of growth



Timber Supply Potential by Ownership



Timber Supply Potential: 8 Million Cord Surplus!



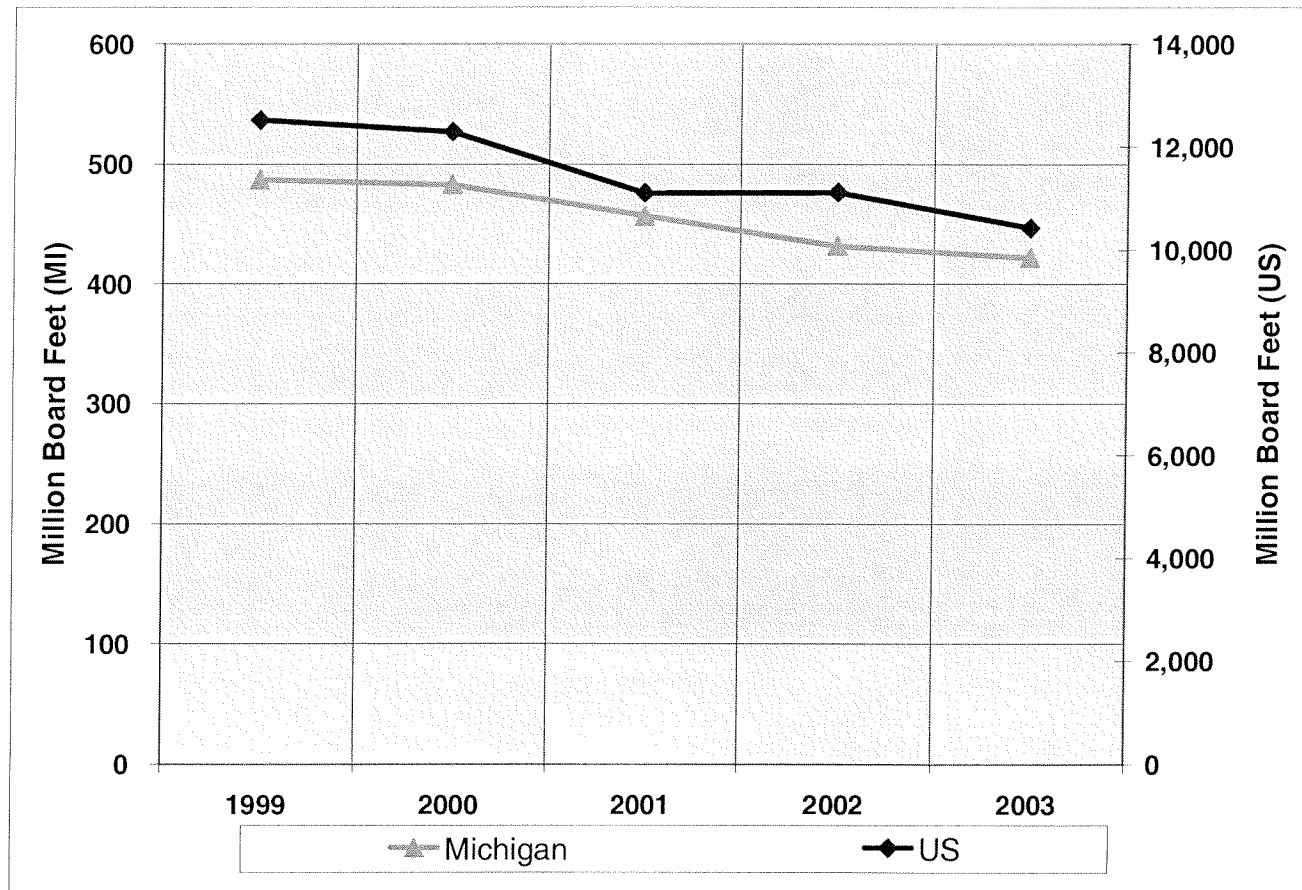
Timber Supply Potential: Summary

- υ All ownership groups are "under-harvesting" to some extent.
- υ The National Forests are harvesting only about 20% of growth.
- υ The State Forests are the highest performing ownership group, yet still harvest less than 40% of growth.
- υ The private landowners of the state represent the largest absolute source of "surplus" timber.



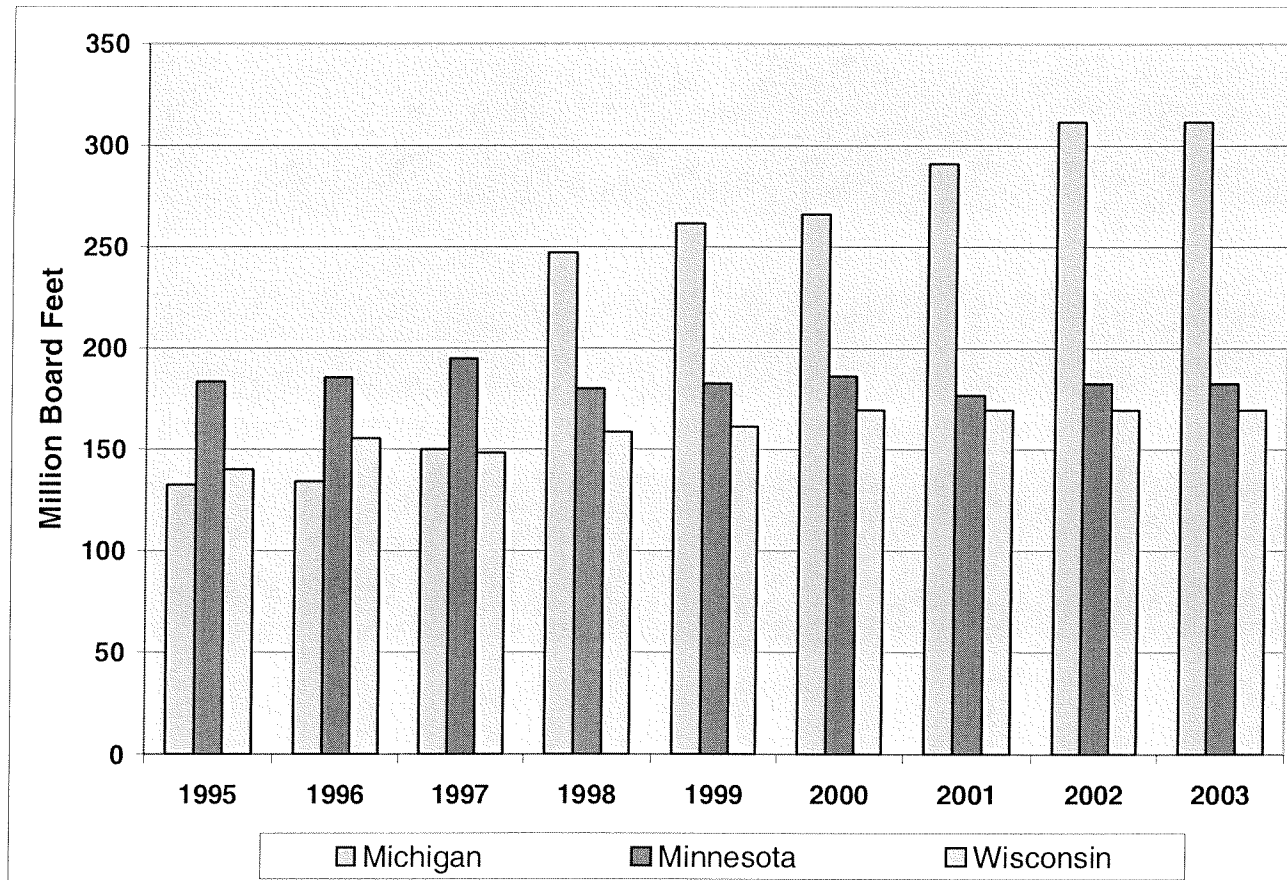
Timber Demand

Hardwood Lumber Production



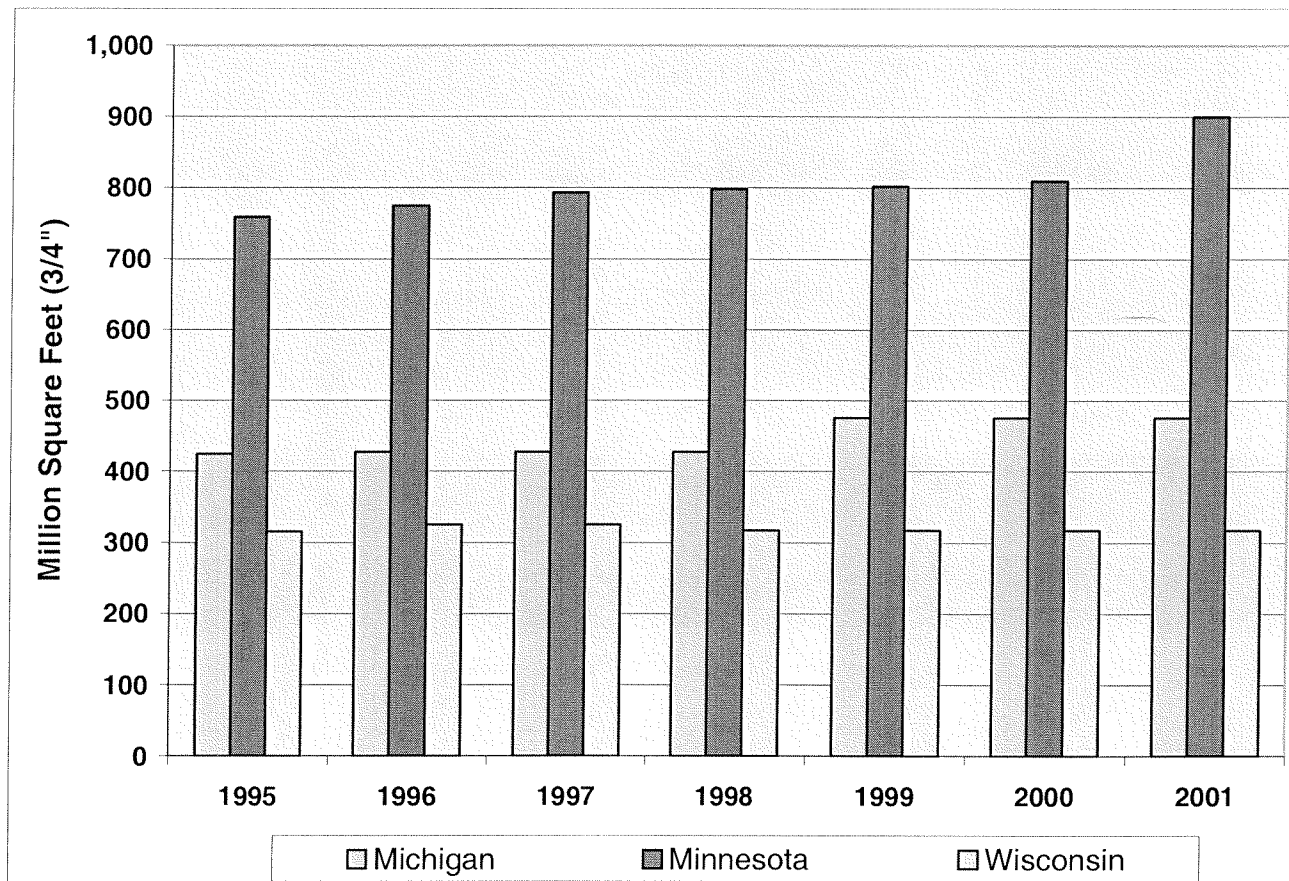
Timber Demand

Softwood Lumber Capacity



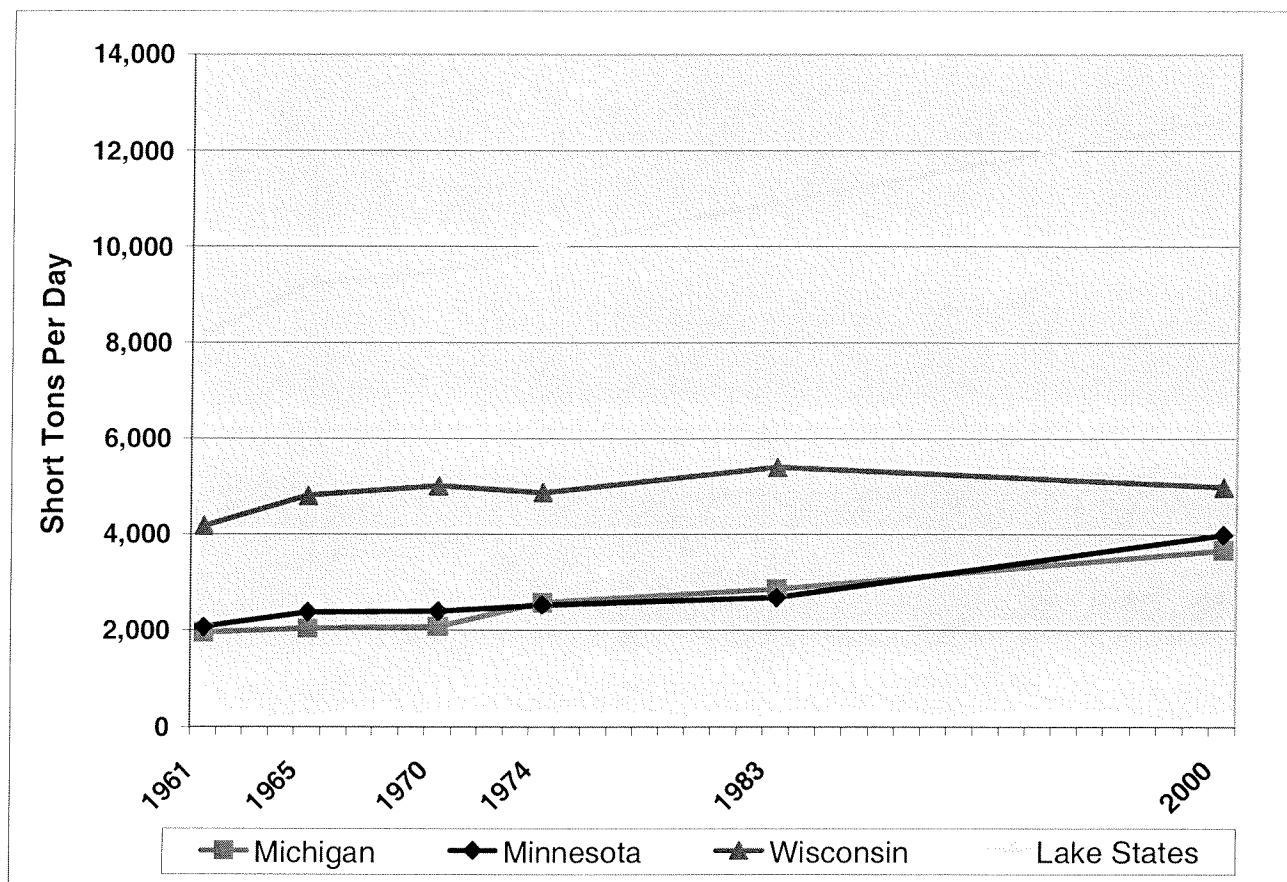
Timber Demand

Oriented Strandboard Capacity



Timber Demand

Pulping Capacity



Timber Imports and Exports

[Interstate and International]

u Pulpwood

- MI is a net exporter, but only when sawmill residues are included (2001)
- Most trade is with WI
- Net roundwood trade only 4% of production

u Sawlogs

- Net exporter of both hardwood and softwood
- Net importer from Canada

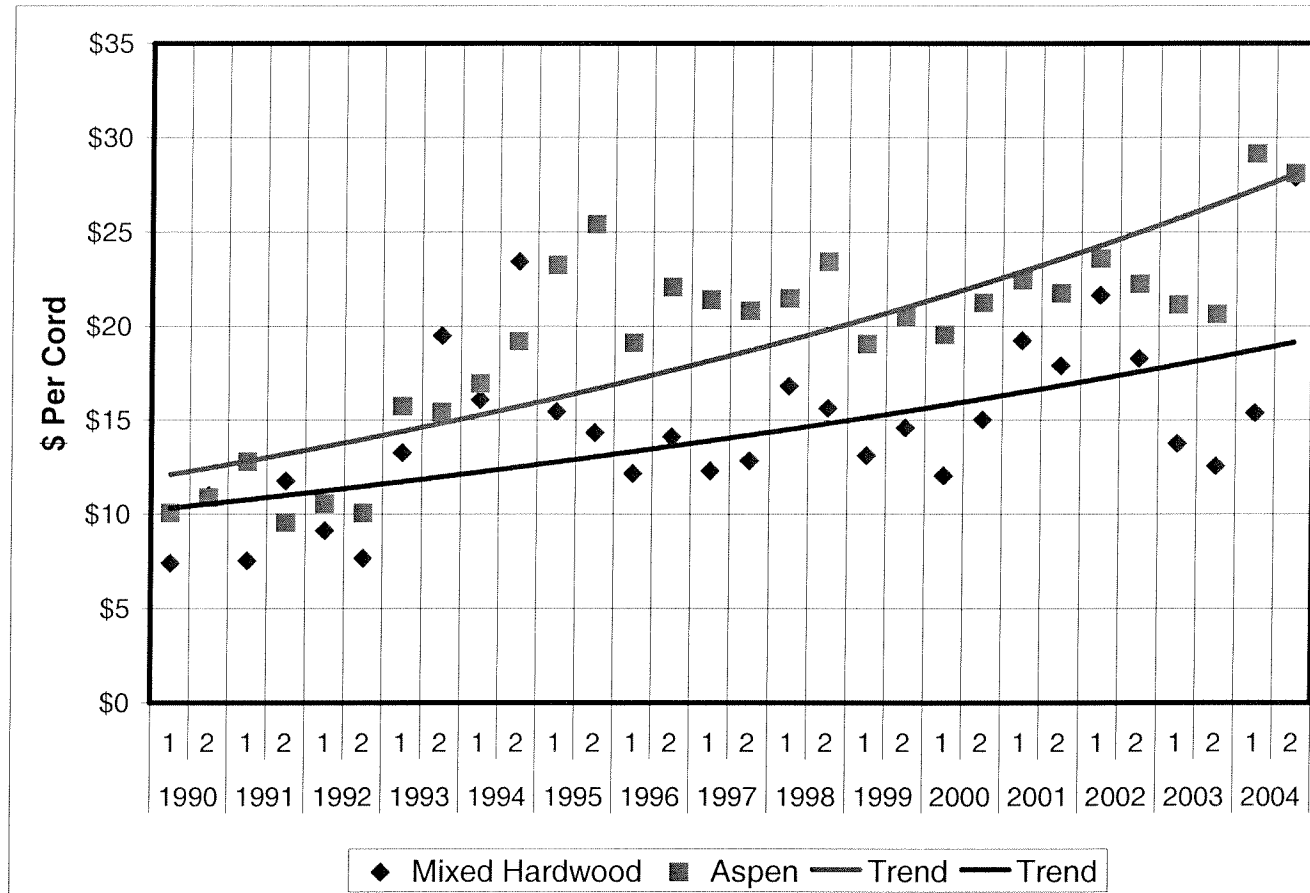


Timber Prices and Trends

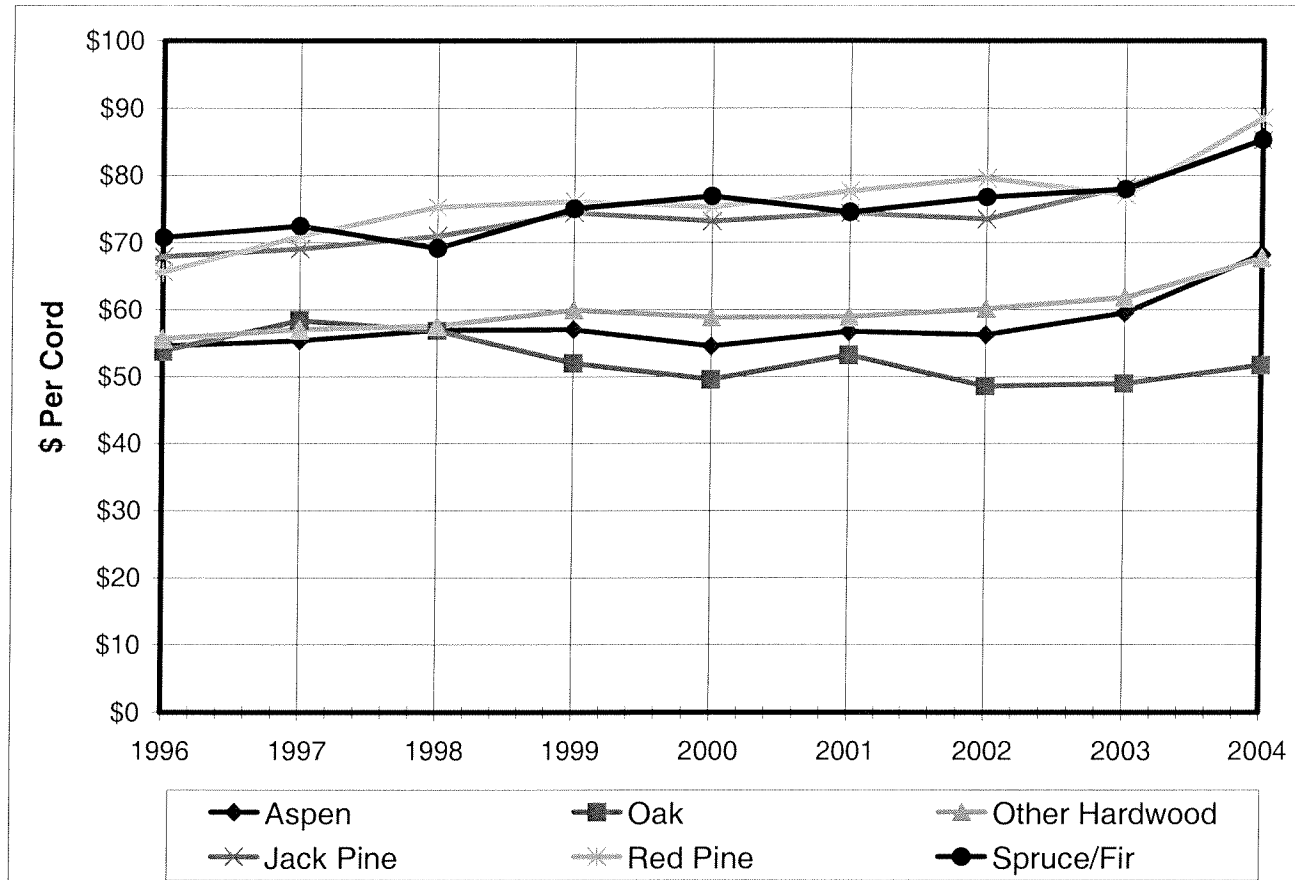
- υ Stumpage
- υ Delivered Wood



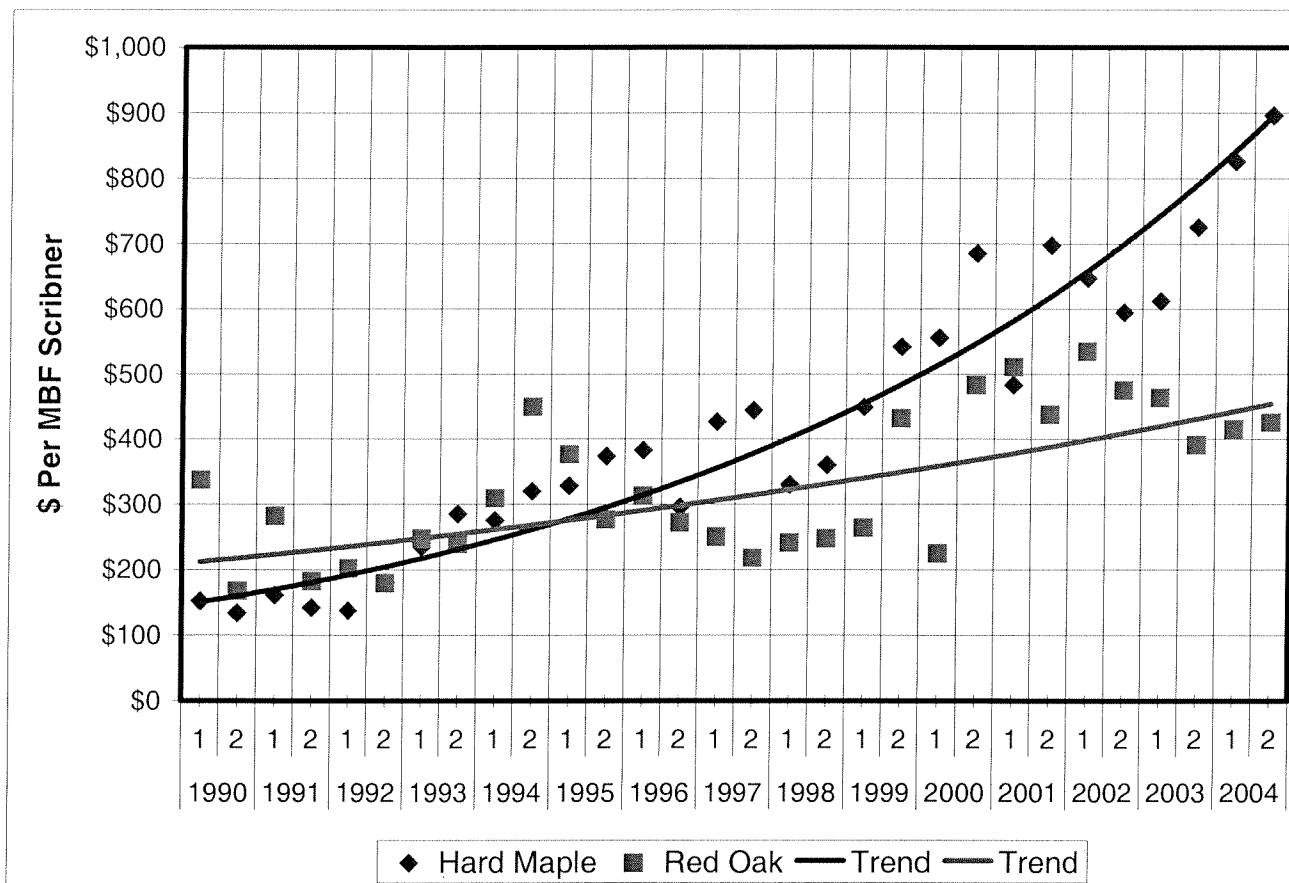
Pulpwood Stumpage



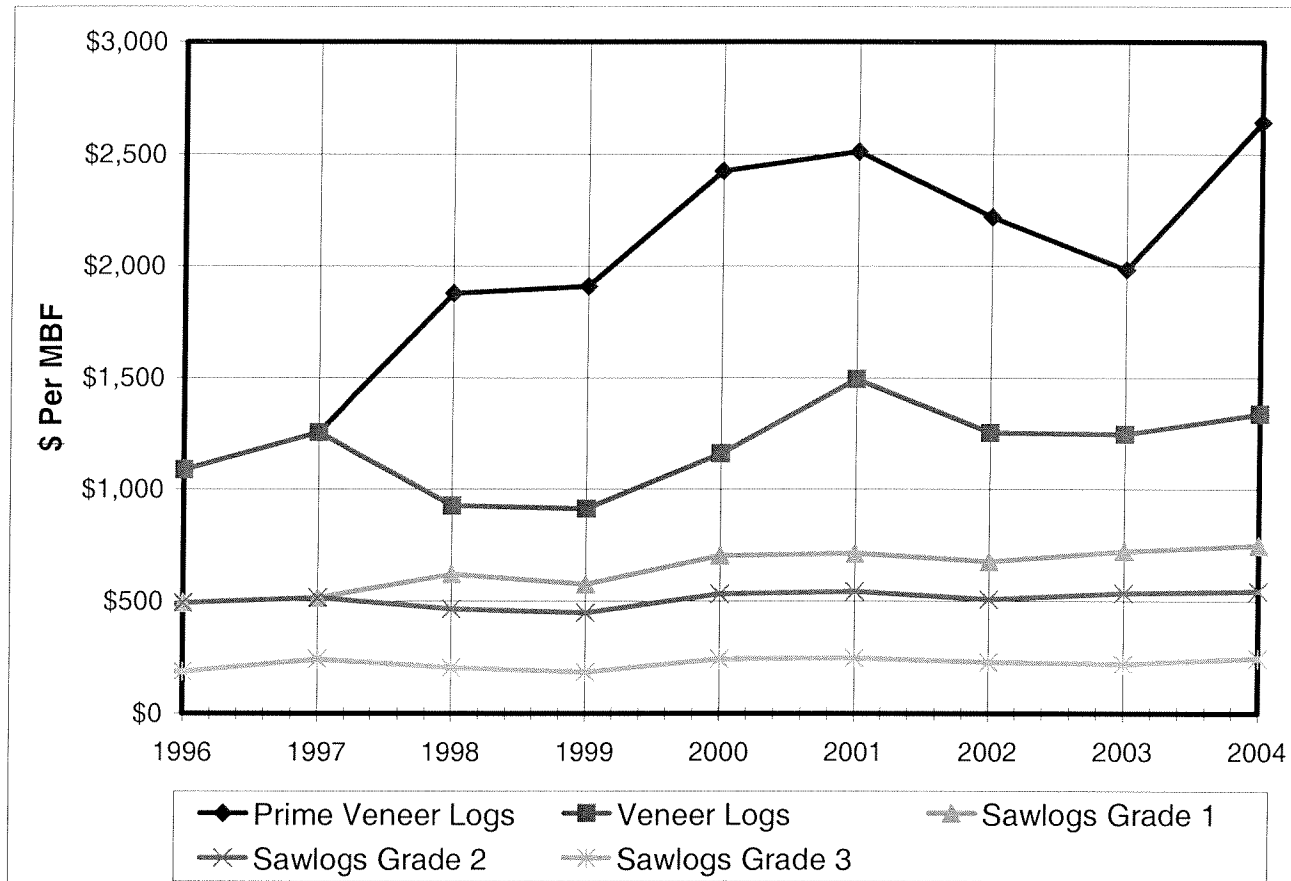
Delivered Pulpwood



Hardwood Sawtimber Stumpage



Delivered Hard Maple Logs



Paradox

- υ Apparently abundant supply
 - υ Moderately increasing demand
 - υ Yet skyrocketing timber prices
- | Explanation is that abundant physical supply is not all available



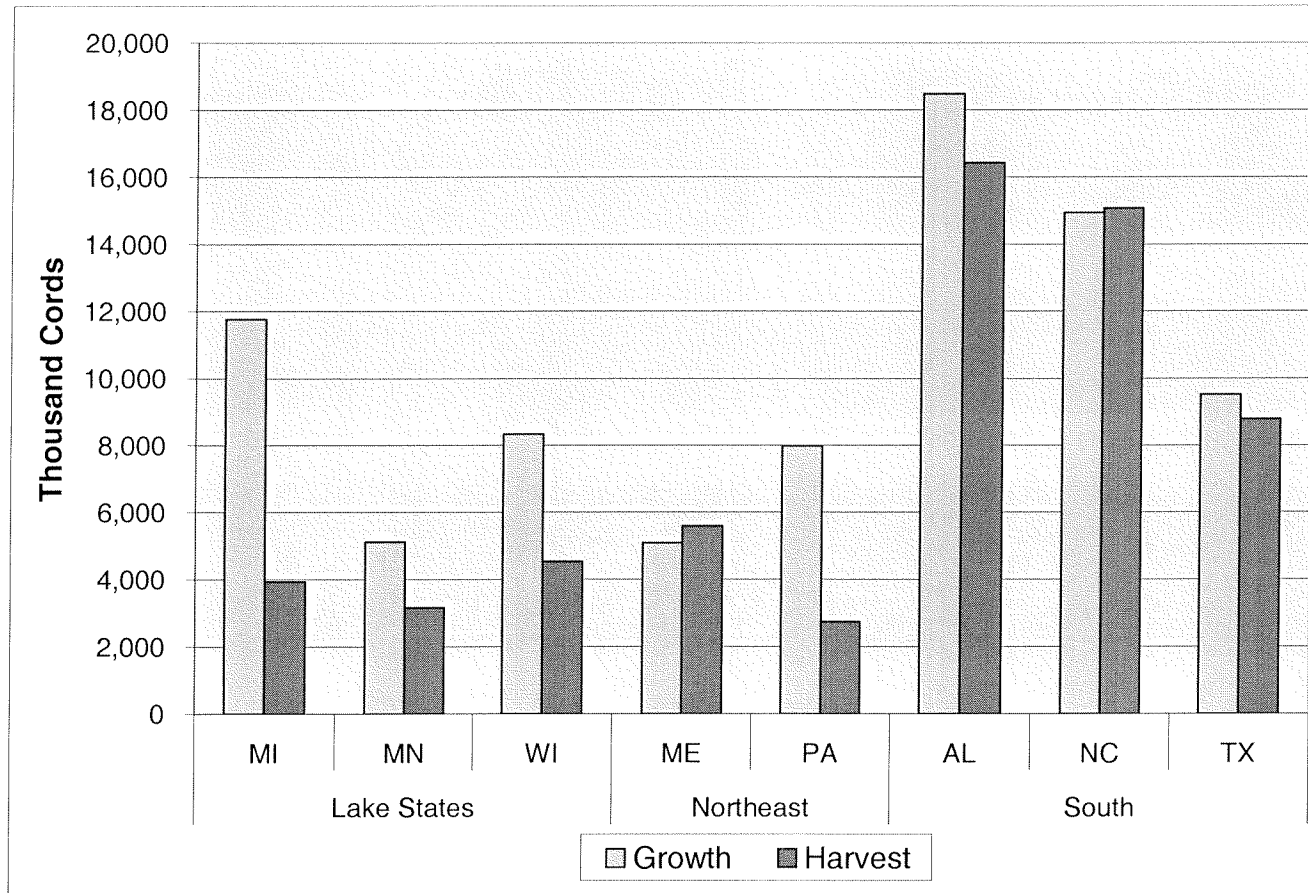
Benchmarking Analysis

Michigan compared against seven other states
in terms of:

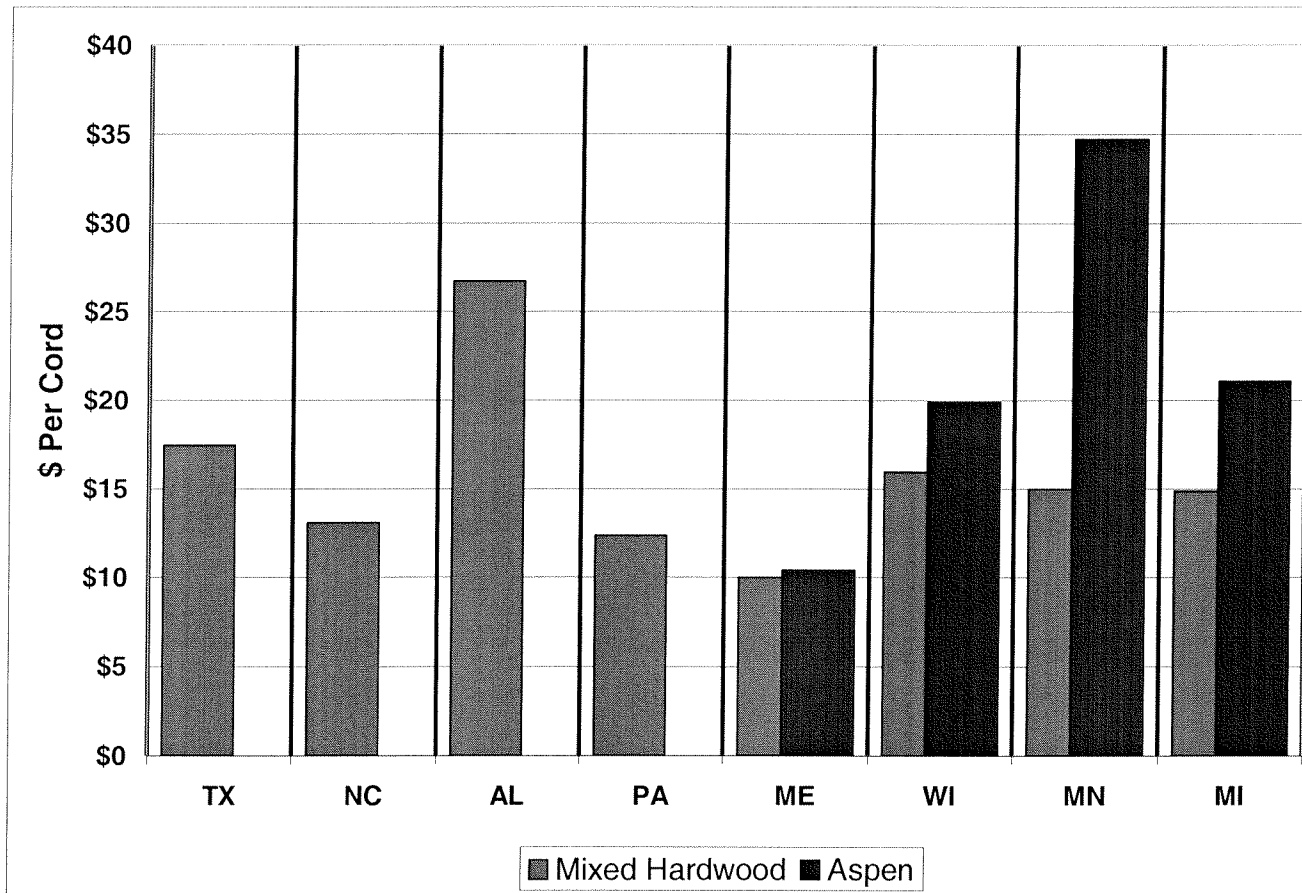
- υ Timber Supply Potential
- υ Prices



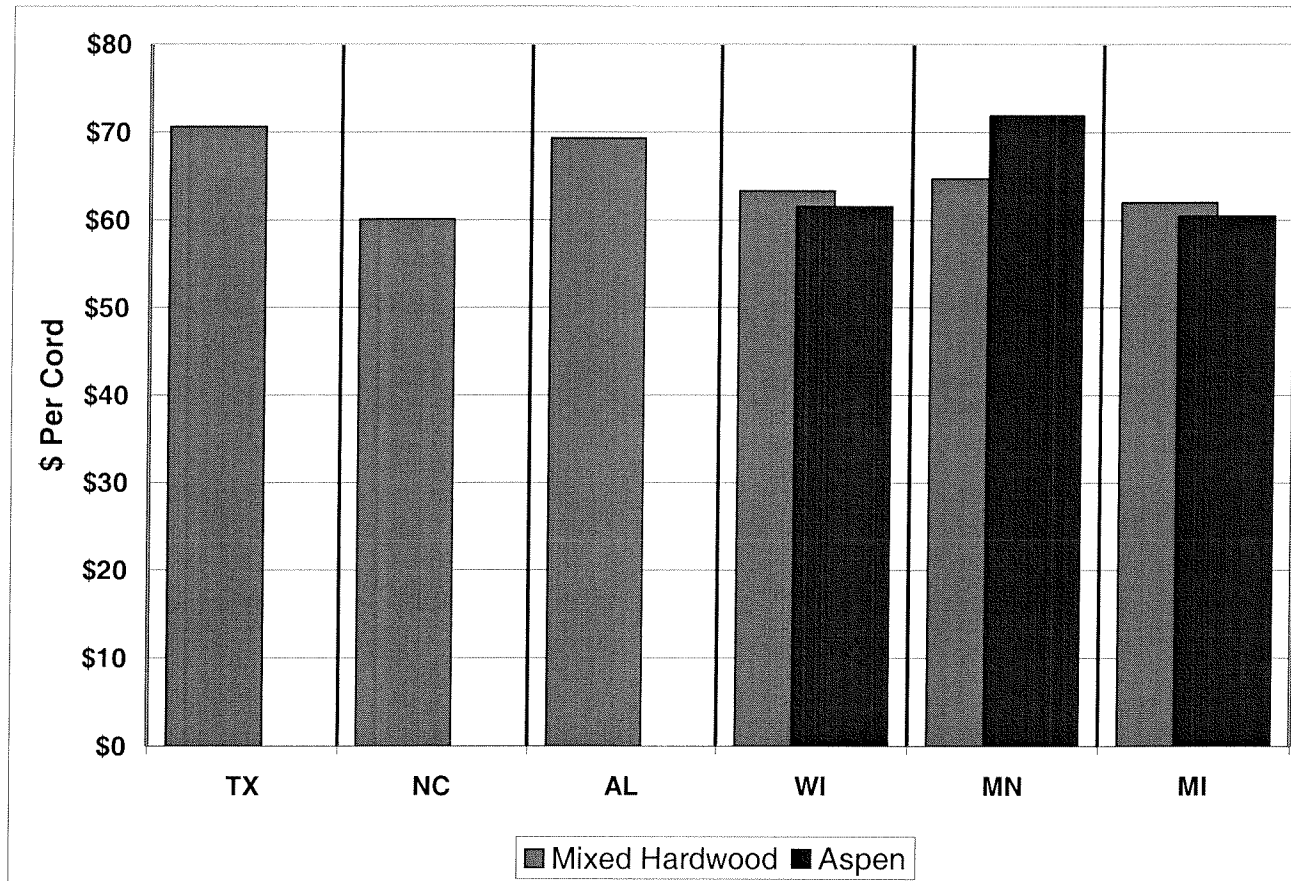
Timber Supply Potential



Hardwood Pulpwood Stumpage



Hardwood Pulpwood Delivered



Summary

- υ Michigan has tremendous timber supply potential
- υ That potential is not being realized because both public and private owners are withholding timber from the market
- υ The result is record high timber prices
- υ Compared to competing states, Michigan's timber supply situation can represent a significant opportunity



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